

Budget FY25: Initial Impressions

Aiming parity amid ambitious targets

The government has set an ambitious goal with 3.6% GDP growth and inflation at 12%. Tax revenue target is increased from 8.7% of GDP to 10.4%. The government under guidelines by IMF remains committed to fiscal consolidation, targeting a primary surplus of 2.0% of GDP for FY25B, up from 0.4% of GDP in FY24R. Despite this consolidation effort, the government aims to provide support by increasing development budget. Overall, the budget is less negative than anticipated and is positive for the stock market by indirectly incentivizing it.

- The FBR tax target is set at ambitious PKR 12.9 TRN (40% Y/Y).
- This is mainly driven by ending preferential treatment in income for export sector, ending exemptions in sales tax and increasing income tax burden for individuals.
- Non-tax revenues target is PKR 4.8 TRN (up 64% Y/Y), with the main increase expected from SBP Profits (up PKR 1.5 TRN).
- Federal net receipts to reach PKR 10.4 TRN (up 53% Y/Y).
- Consolidation efforts continue with only a 21% rise in current expenditure, primarily from increased debt servicing to PKR 9.8 TRN (up 18.5% Y/Y).
- Development budget, however, increased to PKR 1.4 TRN (112% Y/Y) mainly in water resource, food, education and IT to support some growth in FY25.
- Overall, fiscal deficit is set at 5.9% of GDP (down from 7.4% in FY24R) with a primary surplus at 2.0% of GDP (up from 0.4%).
- The impact on inflation seems limited and will likely have positive upside to our estimates of below 13% avg. for FY25.
- Market overcorrected anticipating increased taxes; tax rates remain broadly the same, with increased taxation on real estate, debt-based funds, and non-filers.
- The budget is negative for export-oriented and construction sector.

PKR BN	FY24B	FY24R	FY25B	Y/Y
Budget Outlay	14,484	15,160	18,877	25%
Net Receipts	6,979	6,772	10,377	53%
FBR Taxes	9,415	9,252	12,970	40%
Provinces share	(5,399)	(5,427)	(7,438)	37%
Non Tax Revenues	2,963	2,947	4,845	64%
Provincial Surplus	600	539	1,217	126%
Fiscal Deficit	(6,906)	(7,849)	(7,283)	-7%

% of GDP

Fiscal Deficit	-6.5%	-7.4%	-5.9%
Primary Deficit	0.4%	0.4%	2.0%
FBR Tax	8.9%	8.7%	10.4%

GDP	105,817	106,045	124,150
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Source: Budget documents, Optimus Research

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Sector	Impact	Changes
OGMCs	Neutral to Negative	<ol style="list-style-type: none"> Petroleum Levy target is increased to PKR 1,281 BN for FY25, with max limit for MS/HSD/LDO/HOBC/SKO set at PKR 80/80/75/75/50 LTR. PL on LPG (produced/extracted locally) to be increased to PKR 30,000/MT from current PKR 4,669/MT. POL products moved from zero rated to be exempted. Custom duty proposed at 0% from current 11% on HSD and RLNG.
Automobiles	Positive	<ol style="list-style-type: none"> Withdrawal of custom duties exemptions on CBU imports of hybrid Withdrawal of concession on import of EVs with value exceeding US\$ 50,000. The advance tax on registration of motor vehicles above 2000 cc will be fixed at a certain amount in proportion to the value of the vehicle. Rationalization of RD on import of new and used vehicles.
Auto Parts & Accessories	Positive	<ol style="list-style-type: none"> Levy of Additional Customs Duty on localized auto parts to incentivize local manufacturing sector.
Engineering	Positive	<ol style="list-style-type: none"> Iron and steel scrap to be exempted from levy of sales tax (positive for Amreli, Agha and Mughal). Phased withdrawal of exemption granted to ex-FATA/PATA. Increase levy of RD on flat rolled products of iron and non-alloy steel.
Cement	Negative	<ol style="list-style-type: none"> Normal Income Tax on Export Income The rate of FED on cement is being enhanced from Rs. 2 per kg to Rs. 3 per kg.
Chemical	Neutral	<ol style="list-style-type: none"> Including exporters in the normal tax regime will raise the effective tax rate for export-oriented companies, negatively impacting their net income. Continuation of RD on import of Chloroparafins liquid.
Textile	Negative	<ol style="list-style-type: none"> Including exporters in the normal tax regime will raise the effective tax rate for export-oriented companies, negatively impacting their net income. Increasing GST on supplies made by the POS retailers dealing in leather and textile products by 3%, will impact their demand.
Power Generation and Distribution	Neutral	<ol style="list-style-type: none"> PKR 215 BN allocated as TSG for GPPs in FY25 (PKR 262 BN in FY24) and PKR 174 BN for KE Tariff differential claim (PKR 228 BN in FY24). PKR 253bn for development of energy sector (PKR 65 BN for installation of asset performance management system on distribution transformers, PKR 21 BN for Jamshoro power plant, and remaining for upgradation of NTDC systems). 9 Discos/Gencos to be privatized.
Banks	Neutral	Clarification added for super tax applicable on "Tax year 2023 and onwards".

Source: Budget documents, Optimus Research

PKR BN	FY24		FY25		
	Budgeted	Revised	Budgeted	Y/Y	% of GDP
FBR Tax Revenues	9,415	9,252	12,970	40.2%	10.4%
Income Taxes	4,204	3,682	5,454	48.1%	4.4%
Custom Duties	1,211	1,324	1,591	20.2%	1.3%
Sales Tax	3,411	3,607	4,919	36.4%	4.0%
Federal Excise	538	600	948	58.0%	0.8%
Non Tax Revenues	2,963	2,947	4,845	64.4%	3.9%
SBP Profits	1,113	972	2,500	157.2%	2.0%
Petroleum Levy	869	960	1,281	33.4%	1.0%
PSE Dividends	121	93	139	49.4%	0.1%
Gross Revenues Receipts	12,378	12,199	17,815	46.0%	14.3%
Less: Provincial Transfers	(5,399)	(5,427)	(7,438)	37.1%	-6.0%
Net Revenue Receipts	6,979	6,772	10,377	53.2%	8.4%
Current Expenditures	13,344	14,232	17,203	20.9%	13.9%
Debt Servicing	7,303	8,251	9,775	18.5%	7.9%
Defense	1,804	1,854	2,122	14.5%	1.7%
Pension	801	821	1,014	23.5%	0.8%
Grants & Transfers	1,409	1,482	1,777	19.9%	1.4%
Subsidies	1,064	1,071	1,363	27.3%	1.1%
Others	964	753	1,152	53.0%	0.9%
Development & Net Lending	1,140	928	1,674	80.4%	1.3%
Federal PSDP	950	659	1,400	112.4%	1.1%
Net Lending	190	269	274	1.9%	0.2%
Total Expenditure	14,485	15,160	18,877	24.5%	15.2%
Federal Fiscal Deficit	(7,506)	(8,388)	(8,500)	1.3%	-6.8%
Provincial Surplus	600	539	1,217	125.8%	1.0%
Overall Fiscal Deficit	(6,906)	(7,849)	(7,283)	-7.2%	-5.9%
Primary Fiscal Deficit	397	402	2,492	519.9%	2.0%
As % of GDP					
Federal Deficit	-7.1%	-7.9%	-6.8%		
Overall Deficit	-6.5%	-7.4%	-5.9%		
Primary Surplus	0.4%	0.4%	2.0%		
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